

REPORT ON EXAMINATION
OF THE
COMMERCIAL GUARANTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2006

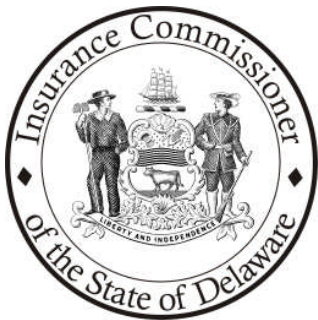
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

COMMERCIAL GUARANTY INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 13 JUNE 2008



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 13TH DAY OF JUNE 2008.

Matthew Denn
Insurance Commissioner

REPORT ON EXAMINATION
OF THE
COMMERCIAL GUARANTY INSURANCE COMPANY
AS OF
December 31, 2006

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matt Denn", written over a horizontal line.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 13TH Day of JUNE 2008.

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SALUTATION

January 30, 2008

Honorable Matthew Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Commissioner:

In compliance with your instructions and pursuant to statutory provisions contained in Certificate of Authority letter 7.052, dated October 11, 2007, an examination has been made of the affairs, financial condition and management of the

Commercial Guaranty Insurance Company

hereinafter referred to as "Company", incorporated under the laws of the State of Delaware. The examination was conducted at the Company's administrative office located at 1 Tower Square, Hartford, Connecticut 06183. The Company's statutory home office is located at 2711 Centerville Road, Suite 400, Wilmington, Delaware, 19808. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2001. This examination covered the period January 1, 2002, through December 31, 2006, and consisted of a general survey of the Company's business policies and practices; management, any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions and events occurring subsequent to the latter date were reviewed and have been commented upon to the extent deemed necessary.

The format of this report is designed to explain the procedures employed on the examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of the examination.

The general procedure of the examination followed rules established by the National Association of Insurance Commissioners (NAIC) Committee on Financial Condition Examiners Handbook as adopted by the Delaware Insurance Department and generally accepted statutory insurance examination standards.

In addition to noted items in this report, the following topics were reviewed and are included in the files of this examination. No exceptions or errors were noted during our review of these items:

Corporate Records
Employees and Agents' Welfare
Fidelity Bond
Legal Actions
All Asset and Liability Items Not Mentioned in This Report
Subsequent Events

The Company was granted an exception from the annual CPA statutory audit. As a result, there were no workpapers available for this examination.

HISTORY

The Company was incorporated on January 9, 1980 under the laws of Delaware under the name of Emmco Insurance Company. Effective December 8, 1987, the Company's name was changed to Commercial Guaranty Insurance Company. On October 31, 1989, Ford Holdings, Inc. (Delaware), a subsidiary of Ford Motor Company (Delaware), purchased all of the issued and outstanding capital stock of the Company's upstream parent, Associates First Capital Corporation (Delaware), from Paramount Communications, Inc. (Delaware). On April 7, 1998, Ford distributed to its stockholders all of its shares in Associates First Capital Corporation (Associates). As result, of this action, Associates was no longer a subsidiary of, or controlled by Ford.

On September 5, 2000, Citigroup, Inc. and Associates entered into an Agreement and Plan of Merger under which Citigroup acquired 100 percent of the outstanding voting securities of Associates. As a result, effective November 30, 2000, Associates became a wholly owned subsidiary of Citicorp, which in turn, was a wholly owned subsidiary of Citigroup Holdings Company, a wholly owned subsidiary of Citigroup, Inc. On October 1, 2001, the Company and its parent Associates Insurance Company were contributed to The Travelers Indemnity Company directly from Travelers Property Casualty Corporation, and indirectly from Citigroup, Inc.

Effective August 20, 2002, Citigroup, Inc. completed the spin-off of Travelers Property Casualty Corporation (TPC) by distributing 219,050,000 shares of TPC Class A common stock and 450,050 shares of TPC Class B common stock.

Effective September 30, 2002, the Company's immediate parent, Associates Insurance Company, was contributed from The Travelers Indemnity Company to The Northland Company, a

downstream noninsurance holding company affiliate. Associates Insurance Company was renamed Commercial Guaranty Casualty Insurance Company in September 2004.

As more fully described in the “Territory and Plan of Operation” section of this report, the Company was placed in a run-off status effective October 25, 2002.

CAPITALIZATION

Pursuant to the Certificate of Incorporation, as amended, the Company is authorized to issue 18,000 shares of \$100 par value common stock. The Company has 18,000 shares issued and outstanding resulting in common capital stock valued at \$1,800,000. All of the shares are issued to the Company’s parent.

Dividends

The Company declared and paid ordinary dividends to its parent during the examination as follows:

| <u>Year</u> | <u>Date approved</u> | <u>Amount</u> |
|-------------|----------------------|---------------|
| 2006 | December 19, 2006 | \$1,200,000 |
| 2005 | December 5, 2005 | 500,000 |
| 2004 | December 29, 2004 | 3,200,000 |

MANAGEMENT AND CONTROL

The bylaws state that the business and affairs shall be managed by a Board of Directors, consisting of one or more directors. The directors shall be elected at the annual meeting of the stockholders and shall hold office until a successor is elected and qualified. It is not necessary for the directors to be stockholders or residents of Delaware. The Company’s bylaws have not been amended during this examination period.

The following, elected by unanimous vote of the sole shareholder at the meeting of April 11, 2006, constituted the Board of Directors as of December 31, 2006:

Jay Steven Benet
William Herbert Heyman
Joseph Patrick Lacher, Jr.
Brian William MacLean
Doreen Spadorcia

The bylaws, as amended, state that the officers of the Company shall include a Chairman of the Board, a President, a Secretary and a Treasurer. The Board of Directors may also appoint one or more Vice Chairmen of the Board, one or more Vice Presidents, and such other officers as are from time to time desired.

The following were elected by unanimous vote of the Board of Directors at the meeting of April 11, 2006, as officers of the Company:

| | |
|------------------------------|---|
| Brian William MacLean, | Chairman, President and CEO |
| Jay Steven Benet | Vice Chairman and CFO |
| Charles Joseph Clarke | Vice Chairman |
| William Herbert Heyman | Vice Chairman and Chief Investment Officer |
| John Joseph Albano | Executive V.P, Business Insurance |
| Andy Francis Bessette | Executive V.P and Chief Administrative Officer |
| John Patrick Clifford, Jr | Executive V.P , Human Resources |
| William Patrick Hannon | Executive V.P, Enterprise Risk Management and Business Conduct Officer |
| Joseph Patrick Lacher, Jr | Executive V.P |
| Samuel Gersten Liss | Executive V.P, Strategic Development and Financial and Professional and International Insurance |
| Maria Olivo | Executive V.P, Investor Relations and Communications |
| Kathleen Lynch Preston | Executive V.P, Enterprise Development |
| Doreen Spadorcia | Executive V.P, Claims |
| Kenneth Franklin Spence, III | Executive V.P and General Counsel |
| Bruce Allen Backberg | Senior V.P and Corporate Secretary |
| Douglas Keith Bell | Senior V.P, Accounting Standards |
| Wade Thomas Overgaard, | Senior V.P and Chief Corporate Actuary |
| Douglas Kenneth Russell | Senior V.P, Treasurer and Corporate Controller |
| Scott William Rynda | Senior V.P, Tax Administration |

The Company did not notify the Delaware Department of Insurance of changes of the officers and directors during the examination period in accordance with 18 Del. C. § 4919.

It is recommended that the Company comply with 18 Del. C. § 4919 and notify the Delaware Department of Insurance of any changes in the directors or officers of the Company.

Subsequent to the examination date, the Company implemented procedures to properly notify the Delaware Department of Insurance of such changes in accordance with 18 Del. C. § 4919.

INSURANCE HOLDING COMPANY SYSTEM

The Company became a member of a holding company system on November 30, 2000. The Company is a wholly-owned subsidiary of Commercial Guaranty Casualty Insurance Company (CCI), an insurance company domiciled in Indiana. CCI is a wholly-owned subsidiary of The Northland Company, a noninsurance holding company incorporated in Minnesota, which at December 31, 2006, was an indirect subsidiary of The St. Paul Travelers Companies, Inc.

The following is an organizational chart that reflects the identities and interrelationships between the Company and its ultimate parent as of December 31, 2006. Due to the large organizational make up of the group, the chart has been limited to its direct affiliates and subsidiaries:

The St. Paul Travelers Companies, Inc.
Travelers Property Casualty Corp.
Travelers Insurance Group Holdings, Inc.
The Northland Company
Commercial Guaranty Casualty Insurance Company
Commercial Guaranty Insurance Company

Subsequent to the examination date, The St. Paul Travelers Companies, Inc. changed its name to The Travelers Companies, Inc. (TRV).

MANAGEMENT AND SERVICE AGREEMENTS

The Company employed no officers, directors, agents or insurance related employees under its own name. Management and service agreements in effect prior to and as of the examination date are summarized as follows.

Expense Allocation Agreement

Effective August 20, 2002, the Company became a party to the Travelers Indemnity Company (INDY) expense allocation agreement. Pursuant to the agreement, the Travelers Indemnity Company provides, obtains services, and incurs costs on behalf of the other parties. Services include financial management, operational management, accounting, internal audit, tax, treasury, and property management, including the acquisition of equipment, software, office space, payroll and human resource services. Services provided include services obtained by INDY from TPC. Reimbursement is on a cost basis with no profit component.

Effective January 1, 2007, the Company amended the expense allocation agreement in effect during the examination period to reflect the February 26, 2007, name change of The St. Paul Travelers Companies, Inc. to The Travelers Companies, Inc.

Tax Allocation Agreement

Effective March 28, 2002, the Company became a party to the TPC tax allocation agreement. The agreement provides for the filing of consolidated or combined tax returns. Generally, TPC and its subsidiaries are allocated and pay an amount of tax equal to what they would have paid in taxes on a separate company basis. TPC is responsible for preparing and filing consolidated federal income tax returns, and TPC or a designated subsidiary is responsible for preparing and filing consolidated or combined state or local tax returns.

Travelers Money Market Liquidity Pool Agreement

On March 27, 2003, the Delaware Department of Insurance approved the Company's participation in the Travelers Money Market Liquidity Pooling Agreement. This agreement was originally effective for pool participants on August 20, 2002. Pursuant to this agreement Travelers Property Casualty Corporation (TPC) serves as the manager for the participants to the pooling agreement. TPC is registered as an investment advisor under the Investment Advisers Act of 1940, as amended.

Under this agreement, the Company shall at all times be the beneficial owner of 100% of its percentage of the total assets of the pool. The assets in this pool are money market funds that are reported in Schedule DA in the annual statement for each participant. In proportion to the aggregate amount of each Company's interest in the pool assets:

- Each Company shall own an undivided interest in the underlying pool assets;
- The underlying pool assets shall be held solely for the benefit of each Company;
- All investments purchased with the pool assets shall be owned by each Company on a pro-rata basis.

In addition, the position of each Company in the pool is calculated daily using the book value of investments. Interest earned is calculated on a daily basis. The companies may withdraw all or any portion of their interest in the pool assets at any time without penalty.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2006, the Company was licensed to write business in nine states and was an admitted surplus lines carrier in Louisiana. The Company was licensed to write commercial auto liability and physical damage coverage, with a small amount of personal property and credit insurance, as well as occurrence specific liability on radon gas contamination for an affiliate's relocation business.

Plan of Operation

At December 31, 2006, the Company reported no direct premiums written. Effective October 25, 2002, management of the Company announced it was exiting its current book of business, which included non-renewing in-force policies, a cessation from writing new business, and terminating agency contracts. The decision was a result of TPC and the Company completing the spin-off from Citigroup, Inc., and the incompatibility of the Company's product distribution channels with those of TPC.

Going forward, all of the Company's business will be in a run-off status. The current plan of the ultimate controlling entity is to preserve the state licenses of the Company and explore future uses of the Company to write business.

GROWTH OF THE COMPANY

The following information was extracted from the Company's filed annual statements and covers the five years since the last examination, through the current examination:

| <u>Year</u> | <u>Admitted Assets</u> | <u>Surplus as Regards Policyholders</u> | <u>Gross Written Premiums</u> | <u>Net Income (Loss)</u> |
|-------------|----------------------------|---|-----------------------------------|------------------------------|
| 2006 | \$ 32,834,257 | \$ 31,504,322 | \$ 0 | \$ 877,296 |
| 2005 | 32,463,130 | 31,710,800 | 0 | 1,347,208 |
| 2004 | 32,821,892 | 31,161,669 | 5,209 | 1,797,287 |
| 2003 | 34,891,117 | 32,594,618 | 70,696 | 968,502 |
| 2002 | 35,178,293 | 31,485,318 | (171,543) | 840,251 |
| 2001 | 32,041,418 | 30,328,576 | 1,425,375 | 1,511,421 |

As discussed in Territory and Plan of Operation, effective October 2002, management of the Company announced it was exiting its entire book of business. Excluding gross written premiums and net income, Company growth has remained stable due to investment income.

The decrease in net income from 2005 to 2006 was primarily the result of a gain of \$1.4 million from the Company's investment portfolio, offset by federal and foreign income taxes incurred of \$0.5 million.

The increase in net income from 2003 to 2004 was the result of the Company ceding 100% of its gross loss and loss adjustment expense reserves to American Equity Insurance Company, an affiliated insurer.

REINSURANCE

As of December 31, 2006, the Company has one reinsurance agreement in effect with American Equity Insurance Company (an affiliate) covering any unpaid losses the Company may incur on its remaining book of business, which is in run off.

ACCOUNTS AND RECORDS

The Company's closing balance sheet and other documents were reviewed for the purposes of this examination. A review of the adjusted trial balance as of December 31, 2006 indicated that the balances supported the financial data of the Company's 2006 annual statement.

Based on the examination review of annual statement classifications and subsequent discussions with management, the accounting system and procedures conformed to insurance accounting standard practices and requirements.

FINANCIAL STATEMENTS

The following financial statements as determined by this examination are presented herein:

Analysis of Assets
Liabilities, Surplus and Other Funds
Underwriting and Investment Exhibit – Statement of Income
Capital and Surplus Account

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding.

Analysis of Assets
As of December 31, 2006

| | Ledger <u>Assets</u> | Non-Admitted <u>Assets</u> | Net Admitted <u>Assets</u> | Notes |
|---|-----------------------------|-------------------------------|-------------------------------|-------|
| Bonds | \$ 29,971,324 | | \$ 29,971,324 | 1 |
| Stocks: | | | | |
| Preferred | 71,580 | | 71,580 | |
| Cash, cash equivalents, and short-term investments | 2,437,905 | | 2,437,905 | |
| Investment income due and accrued | 352,025 | | 352,025 | |
| Net deferred tax asset | 112,243 | 112,243 | 0 | |
| Guaranty funds receivable or on deposit | 1,419 | | 1,419 | |
| Receivable from parent, subsidiaries and affiliates | 4 | | 4 | |
| | <hr/> | <hr/> | <hr/> | |
| Total Assets | <u><u>\$ 32,946,500</u></u> | <u><u>\$ 112,243</u></u> | <u><u>\$ 32,834,257</u></u> | |

Statement of Liabilities, Surplus and Other Funds
December 31, 2006

| | | Notes |
|--|-----------------------------|-------|
| Losses | \$ (1) | 2 |
| Other expenses | 742 | |
| Taxes, licenses and fees | (38,648) | |
| Current federal and foreign income taxes | 1,367,942 | |
| Remittances and items not allocated | (100) | |
| Total Liabilities | <u><u>\$ 1,329,935</u></u> | |
| Common capital stock | \$ 1,800,000 | |
| Gross paid-in and contributed surplus | 1,010,019 | |
| Unassigned funds (surplus) | 28,694,303 | |
| Surplus as regards policyholders | <u><u>\$ 31,504,322</u></u> | |
| Totals | <u><u>\$ 32,834,257</u></u> | |

Underwriting and Investment Exhibit
Statement of Income
December 31, 2006

UNDERWRITING INCOME

| | | |
|-----------------|----|---|
| Premiums earned | \$ | - |
|-----------------|----|---|

DEDUCTIONS

| | | |
|--------------------------------------|----|------|
| Losses incurred | \$ | - |
| Loss expenses incurred | | 0 |
| Other underwriting expenses incurred | | (63) |
| Miscellaneous other (income) / loss | | - |
| Total underwriting deductions | | (63) |
| Net underwriting gain or (loss) | | 63 |

INVESTMENT INCOME

| | | |
|--|----|-----------|
| Net investment income earned | \$ | 1,426,836 |
| Net realized capital gains or (losses) | | (6,073) |
| Net investment gain or (loss) | \$ | 1,420,763 |

OTHER INCOME

| | | |
|---|----|-----------|
| Miscellaneous income | \$ | 990 |
| Total other income | \$ | 990 |
| Net income before dividends to policyholders and before FIT | \$ | 1,421,816 |
| Dividends to policyholders | | 0 |
| Net income after dividends to policyholder but before FIT | \$ | 1,421,816 |
| Federal and foreign income taxes incurred | | 544,520 |
| Net income | \$ | 877,296 |

Capital and Surplus Account
December 31, 2005 through December 31, 2006

| | |
|---|-----------------------------|
| Surplus as regards policyholders, December 31, 2005 | <u>\$ 31,710,800</u> |
| Net income | \$ 877,296 |
| Change in net unrealized capital gains | 1,014 |
| Change in net deferred income tax | 227,456 |
| Change in non-admitted assets | (112,243) |
| Dividends to stockholders | <u>(1,200,000)</u> |
| Change in surplus as regards policyholders for the year | <u>\$ (206,477)</u> |
| Surplus as regards policyholders, December 31, 2006 | <u><u>\$ 31,504,323</u></u> |

Analysis of Examination Changes
December 31, 2006

There were no examination adjustments.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds **\$29,971,324**

Procedures were performed to confirm the existence and ownership of the bond investments reported in Schedule D, part 1 of the 2006 annual statement. These procedures were performed without exception. The Company's bond portfolio comprised 92% of total admitted assets as of December 31, 2006. All of the Company's bonds were rated class 2 or better by the NAIC Securities Valuation Office.

Note 2 – Losses and Loss Adjustment Expenses **\$0**

The Company's net liability for losses, loss adjustment expenses and unearned premiums was zero because 100 percent of its business is ceded to American Equity Insurance Company, an affiliate.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company's compliance with prior examination recommendations was reviewed for each account in the current examination for which there was a prior exam recommendation. All prior examination recommendations were either directly or indirectly addressed subsequent to the previous examination.

SUMMARY OF RECOMMENDATIONS

The Company did not notify the Delaware Department of Insurance of changes of the officers and directors during the examination period in accordance with 18 Del. C. § 4919.

It is recommended that the Company comply with 18 Del. C. § 4919 and notify the Delaware Department of Insurance of any changes in the directors or officers of the Company.

Subsequent to the examination date, the Company implemented procedures to properly notify the Delaware Department of Insurance of such changes in accordance with 18 Del. C. § 4919.

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between examination periods.

| Description | December 31, 2006 Current Examination | December 31, 2001 Prior Examination |
|---------------------------------------|--|--|
| Assets | <u>\$32,834,257</u> | <u>\$32,041,418</u> |
| Liabilities | \$ 1,329,934 | \$ 1,712,842 |
| Common capital stock | \$ 1,800,000 | \$ 1,800,000 |
| Gross paid in and contributed surplus | 1,010,019 | 1,010,019 |
| Unassigned funds (surplus) | <u>28,694,304</u> | <u>27,518,557</u> |
| Total capital and surplus | <u>\$31,504,323</u> | <u>\$30,328,576</u> |
| Totals | <u>\$32,834,257</u> | <u>\$32,041,418</u> |

Since the last examination as of December 31, 2001, total assets have increased \$792,839.

Liabilities have decreased \$382,908, and capital and surplus has increased \$1,175,746.

Respectfully submitted,



Dwight W. Ward, CFE
Examiner-in-Charge
State of Delaware